



MEMORANDUM

To: Mayor and Members of the City Council

From: Montrè Freeman, City Manager
Dwan Bell, Public Utilities Director
Alicia Steward, Finance Director
Jon Hawley, Grants Administrator

Date: December 11, 2022

Re: Consideration / Discussion - Impact of Water-Sewer Rates on Potential DEQ Funding Eligibility

BACKGROUND:

The NC Department of Environmental Quality, Division of Water Infrastructure, is one of the primary sources of water and sewer infrastructure funding for the City of Elizabeth City and other local governments in the state of North Carolina. In determining the types and levels of funding available to local governments, one of DEQ's considerations is a utility's water and sewer rates, and whether the utility is raising appropriate revenues for sustainable operations without overburdening their customers.

This memo is intended to complement and advise separate staff guidance on potential water and sewer rate increases.

ANALYSIS:

In considering DEQ grant applications during 2022, City staff found that the City's eligibility for grants, rather than principal forgiveness loan packages through State Revolving Fund programs, was sometimes limited. In addition to SRFs, DEQ offered funding through the Viable Utility Reserve (VUR) and the State Reserve Program. The VUR Program is only available to local governments identified as "distressed"; distressed utilities include, among other criteria, scoring at least nine points a DEQ Total Assessment Criteria Score that considers the soundness/sustainability of utilities. (Distressed units may also be those under control of the Local Government Commission, which is not

desirable and also carries a potential stigma.) *However*, a Total Assessment Score of 6 would qualify a municipality as merely *at-risk*, which could make them eligible for additional grants through the State Reserve Program.

This summer, City staff verified that the City currently has five points on the Assessment Criteria. One way to pick up an additional point, if desired, would be if the combined water-sewer cost for a City customer using 5,000 gallons a month of water and sewer a month equaled or exceeded \$100. (See Assessment Criteria attachment.)

Based on the City's current base water and sewer charges of \$23.35 and \$22.22 respectively, and the per 1,000-gallon rates of \$6.90 and \$5.99, our combined bill per 1,000 gallons is \$97.13. Based on this, if our combined water-sewer rate equaled \$13.61 (or approximately \$6.81 per 1,000 gallons each for water and sewer), we would exceed this threshold. In one of many alternative rate-setting scenarios, maintaining our water rate at \$6.90 and raising the sewer rate to *at least* \$6.71 would also meet this number.

In providing this information to the Council, let City staff stress that it is not guaranteed that raising our rates to the \$100 per 5,000 gallon threshold would automatically qualify us for these additional funds. However, it would be a step towards our potential eligibility. (Please see attached DEQ email correspondence; we would not qualify for at-risk until DEQ completed a reassessment of units' vulnerability next year.)

Additionally, City staff have determined that, if our combined rate exceeded \$107, we would potentially qualify for more favorable principal forgiveness loans. However, City staff caution against pursuing this rate level if DEQ funding is the sole justification. Aside from requiring water and sewer rates of up to \$7.68 each, which may be burdensome to customers, DEQ staff have often advised that principal forgiveness allocations are very limited – recipients may be offered less assistance than they actually qualify for due to limited funds.

STAFF RECOMMENDATION:

This memo is for informational purposes only. While external funding opportunities are an extremely valid consideration in setting water-sewer rates, we advise the primary consideration to be the sustainability of the City's utility services.